

STATE OF SOUTH CAROLINA

Annual Review of Purchased Gas Adjustment and
Gas Purchasing Policies of South Carolina Electric &
Gas Company

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2008 - 5 - G

(Please type or print)

Submitted by: K. Chad BurgessSC Bar Number: 69456

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DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input checked="" type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other: <i>OK Duke</i>
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	<i>OK D. Duke</i>
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
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RETURN DATE: *OK Duke*
SERVICE: *OK D. Duke*



K. Chad Burgess
Senior Counsel

chad.burgess@scana.com

May 13, 2008

VIA HAND DELIVERY

The Honorable Charles Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive (29210)
Post Office Drawer 11649
Columbia, South Carolina 29211

RECEIVED
2008 MAY 13 AM 11:59
SC PUBLIC SERVICE
COMMISSION

RE Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of
South Carolina Electric & Gas Company
Docket No. 2008-5-G

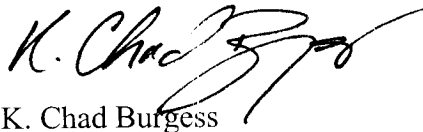
Dear Mr. Terreni:

Enclosed for filing, on behalf of South Carolina Electric & Gas Company is the direct testimony of Martin K. Phalen, James E. Swan IV, Rose Jackson, and Harry L. Scruggs. Please accept the original and twenty-five (25) copies of each for filing. Additionally, please acknowledge your receipt of these documents by file-stamping the extra copies that are enclosed and returning them to us via our courier.

By copy of this letter, we are serving counsel for the South Carolina Office of Regulatory Staff with a copy of the enclosed direct testimony and attach a certificate of service to that effect.

If you have any questions regarding this matter, please advise.

Very truly yours,


K. Chad Burgess

KCB/kms

Enclosures

cc: Shannon Bowyer Hudson, Esquire
Shealy Boland Reibold, Esquire
(all hand delivery with enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2008-5-G

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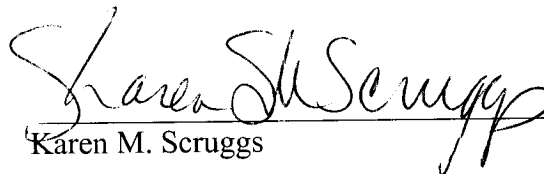
IN RE:

Annual Review of Purchased Gas)
Adjustment and Gas Purchasing Policies)
of South Carolina Electric & Gas Company)
_____)

CERTIFICATE
OF SERVICE

This is the certify that I have caused to be served this day ten (10) copies of South Carolina Electric & Gas Company's **Testimony of Martin K. Phalen, James E. Swan IV, Rose Jackson and Harry L. Scruggs** via hand delivery to the persons named below at the address set forth:

Shannon Bowyer Hudson, Esquire
Shealy Boland Reibold, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201



Karen M. Scruggs

Columbia, South Carolina
This 13th day of May 2008

**DIRECT TESTIMONY OF
ROSE JACKSON
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2008-5-G**

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COMMISSION
2008 MAY 13 01:12:40

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Rose Jackson, and my business address is 1426 Main Street, Columbia, South Carolina. I am employed by SCANA Services, Inc. as General Manager – Gas Supply & Capacity Management.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I graduated from the University of South Carolina in 1988 with a Bachelor of Science degree in Accounting. Following graduation, I worked for approximately three (3) years as an accountant for a national security services firm. In 1992, I began my employment with SCANA Corporation (“SCANA”) as an accountant working directly for SCANA Energy Marketing, Inc. Over the years, I have held varying positions of increasing responsibility including Energy Services Coordinator, where I was responsible for scheduling gas for the Atlanta Gas Light System; project manager for the implementation of an automated gas management system; and Manager of Operations. In 1998, I became responsible for gas procurement, interstate pipeline and local distribution company scheduling and preparation of gas accounting information. In May 2002, I became Manager of Operations and Gas Accounting with SCANA Services where I was responsible for gas scheduling on interstate pipelines and gas accounting for all SCANA

1 subsidiaries. In November 2003, I became Fuels Planning Manager where I
2 assisted all SCANA subsidiaries with strategic planning and special projects
3 associated with natural gas. I held this position until promoted to my current
4 position in December 2005.

5 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION PREVIOUSLY?**

6 A. Yes.

7 **Q. WHAT ARE YOUR DUTIES AS GENERAL MANAGER – GAS SUPPLY &**
8 **CAPACITY MANAGEMENT?**

9 A. In regard to South Carolina Electric & Gas Company (“SCE&G” or the
10 “Company”), I am responsible for gas supply and capacity management functions.
11 Specifically, my responsibilities include the oversight of planning, procurement of
12 supply and capacity, nominations and scheduling, gas cost accounting, state and
13 federal regulatory issues concerning supply and capacity, and asset and risk
14 management.

15 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

16 A. The purpose of my direct testimony is two-fold. First, I discuss SCE&G’s
17 portfolio of gas supply, addressing the various gas supply options available to the
18 Company. I then discuss SCE&G’s transportation assets available and used to
19 provide natural gas services to its customers, and conclude my discussion on gas
20 supply by reviewing SCE&G’s storage assets.

1 Second, my testimony addresses risk management in connection with
2 volatile natural gas prices. This portion of my testimony focuses on the benefits
3 and operations of SCE&G's financial concept known as hedging.

4
5 **I. GAS SUPPLY.**

6
7 **Q. PLEASE EXPLAIN THE GAS SUPPLY OPTIONS CURRENTLY**
8 **AVAILABLE TO SCE&G.**

9 A. There are three gas supply options that are available to SCE&G: (1) wellhead
10 gas supply; (2) underground storage; and (3) liquefied natural gas ("LNG").
11 SCE&G's gas asset portfolio includes each of these supply options, and the
12 Company has combined these supply options with interstate transportation to meet
13 its firm demand under varying weather conditions at reasonable cost.

14 **Q. PLEASE DESCRIBE THE AVAILABLE INTERSTATE PIPELINE**
15 **TRANSPORTATION OPTIONS.**

16 A. SCE&G purchases interstate pipeline transportation capacity on both a firm
17 and interruptible basis from the three (3) interstate pipelines that provide service to
18 SCE&G: Southern Natural Gas Company ("Southern"), Transcontinental Gas Pipe
19 Line Corporation ("Transco"), and Carolina Gas Transmission Corporation
20 ("CGTC").

21 Interstate Firm Transportation ("FT") service permits SCE&G access to
22 interstate pipeline transportation capacity on a priority basis. Interruptible

1 Transportation ("IT") service is only available when FT customers, such as
2 SCE&G, are not using their FT capacity. IT service is curtailed when FT
3 customers use their capacity. In sum, FT and IT services use the same physical
4 pipeline capacity, with FT service having priority. SCE&G contracts for FT
5 service from the three interstate pipelines serving South Carolina to ensure
6 delivery of natural gas during colder periods when the full transportation capacity
7 of these pipelines is used and when the demand for natural gas service is typically
8 greatest. SCE&G currently holds 161,143 dekatherms ("Dt") of firm capacity on
9 Southern and 64,652 Dt of firm capacity on Transco. In addition, SCE&G
10 contracts for 296,929 Dt of firm capacity with CGTC in order to deliver gas from
11 Transco and Southern and from SCE&G's in-state LNG facilities to SCE&G's
12 system. Exhibit No. ____ (RJ-1) provides a summary of the firm transportation
13 contracts by pipeline supplier.

14 **Q. HOW DOES SCE&G OPTIMIZE ITS FIRM TRANSPORTATION**
15 **CAPACITY?**

16 A. SCE&G optimizes its firm transportation capacity through a process called
17 "segmentation." In certain limited circumstances, segmentation allows SCE&G to
18 deliver up to twice as much supply on a portion of its firm capacity while paying
19 only one demand charge. Interstate pipelines allow segmentation as long as the
20 delivery point meter has sufficient capacity and gas supply does not cross the same
21 delivery point. For example, SCE&G may use 10,000 Dt of its firm transportation
22 on CGTC to deliver 20,000 Dt of gas supply to the Charleston area. In this example,

1 10,000 Dt of supply could be delivered from the Gulf Coast and 10,000 Dt of supply
2 could be delivered from the Bushy Park LNG plant to serve the Charleston area
3 using the same 10,000 Dt of transportation capacity secured from CGTC.

4 Additionally, SCE&G shares interstate transportation capacity between its gas
5 and electric departments as previously authorized by the Commission in Docket No.
6 2006-5-G. The electric department currently holds 27,000 Dt/day of capacity on the
7 CGTC pipeline and, pursuant to a Memorandum of Understanding ("MOU"), the
8 electric department shares this capacity with the gas department for use during the
9 winter months (known as the "Gas Department Base Capacity"). The gas
10 department has the first call on this capacity during the winter months and the
11 electric department has first call on this capacity during the summer months;
12 however, either party may use the Gas Department Base Capacity without additional
13 capacity charges when it is not in use by the other. Other transportation and storage
14 capacity held by either department may be shared with the other on a recallable basis
15 as conditions warrant. Additionally, either party may call on capacity that the other
16 is not using at any given time and will pay the fixed charges associated with that
17 capacity allocated based on a 100% load factor rate. The other party may recall the
18 incremental capacity at any time if needed for its system.

19 **Q. HOW ARE COSTS ALLOCATED BETWEEN THE TWO DEPARTMENTS?**

20 A. The MOU allocates capacity costs based on the relative numbers of customers
21 served by the two departments as of the time the MOU was executed. Under the
22 MOU, 32.32% of the fixed capacity costs associated with the Gas Department Base

1 Capacity is assigned to the gas department and the remaining 67.68% is assigned to
2 the electric department. The department transporting gas under the MOU is also
3 responsible for all volumetric charges and costs associated with the gas transported,
4 including any imbalance costs or penalties.

5 **Q. PLEASE EXPLAIN THE BENEFITS OF THE MOU TO SCE&G AND ITS**
6 **CUSTOMERS.**

7 A. The MOU is functioning as intended and is a beneficial tool to the Company.
8 This arrangement promotes the efficient use of interstate transportation and storage
9 capacity between the departments and reduces the cost included within the cost of
10 gas factor. Moreover, prior to developing the MOU, the gas department did not have
11 firm access to facilities allowing it to utilize gas supplied by the Elba Island
12 Liquefied Natural Gas Facility located near Savannah, Georgia. In sum, the MOU
13 allows SCE&G to use this additional source of natural gas supply to meet the
14 reliability and service needs of its natural gas distribution system at reasonable costs.

15 **Q. PLEASE BRIEFLY DESCRIBE THE UNDERGROUND STORAGE**
16 **OPTION.**

17 A. After purchase, some wellhead gas is stored in underground facilities for
18 future use. Gas stored in these underground facilities can be withdrawn and
19 delivered to SCE&G's system during periods of high demand. Additionally, gas can
20 be injected and withdrawn from these facilities in order to "balance" the system on a
21 daily basis.

1 **Q. WHAT INTERSTATE STORAGE ASSETS ARE AVAILABLE TO THE**
2 **COMPANY TO AID IN DELIVERING RELIABLE AND SECURE GAS**
3 **SERVICE TO SCE&G CUSTOMERS?**

4 A. The Company currently has 4,908,848 Dt of storage on Southern's system,
5 with maximum daily withdrawal capability from this storage equaling 99,121 Dt
6 per day at peak storage inventory. On Transco, SCE&G subscribes to 650,823 Dt
7 per day of storage, with a maximum withdrawal quantity of 23,835 Dt per day at
8 peak storage inventory. Exhibit No. ____ (RJ-2) reflects total storage and
9 withdrawal capacity by pipeline supplier in a table format.

10 **Q. PLEASE DESCRIBE THE LNG FACILITIES AND THEIR CAPACITIES.**

11 A. SCE&G owns and operates two LNG facilities: one at Bushy Park near
12 Charleston which can liquefy and store up to 980,000 Mcf of LNG, and the other
13 at Salley, in Orangeburg County, which can store up to 900,000 Mcf of trucked-in
14 LNG. LNG must be transported to Salley via truck because Salley has no
15 liquefaction facilities.

16 **Q. AT WHAT VAPORIZATION RATE CAN SCE&G USE THESE**
17 **FACILITIES?**

18 A. The combined storage capability of these facilities allows our system
19 throughput planning to assume a maximum daily withdrawal quantity of 105,000
20 Mcf/day. For example, assuming that storage volumes are at maximum capacity,
21 Bushy Park's inventory would be exhausted in approximately 16 days if operated at

1 a withdrawal rate of 60,000 Mcf/day, and Salley's inventory would be exhausted in
2 approximately 20 days if operated at a withdrawal rate of 45,000 Mcf/day.

3 **Q. WHAT BENEFIT DO THESE LNG ASSETS PROVIDE THE COMPANY?**

4 A. SCE&G relies primarily upon its LNG assets to fulfill the peaking needs of
5 its system and customers. Additionally, the on-system LNG service significantly
6 adds to the reliability and security of gas supply during unfavorable operating
7 conditions that may occur from time to time. For example, SCE&G's supply of
8 gas could be unexpectedly interrupted because of a hurricane in the Gulf, or
9 because abnormally cold weather creates a spike in demand which in turn causes
10 equipment malfunctions, well freeze-ups, and other operational abnormalities
11 thereby limiting the supply of gas into South Carolina. In these instances, SCE&G
12 could employ the use of its on-system LNG facilities for a limited time to offset or
13 reduce any adverse effects caused by an upstream interruption.

14 Attached hereto as Exhibit No. ____ (RJ-3) is a comparison of SCE&G's
15 firm sales service to its capacity to deliver gas to serve firm demand. This exhibit
16 indicates that the Company will have firm assets sufficient to provide a 4.19%
17 operating reserve which is limited by the durational output of the LNG facilities.

18 **Q. HOW DOES SCE&G UTILIZE ITS COMBINED INTERSTATE**
19 **STORAGE AND ON-SYSTEM LNG TO ENSURE RELIABLE AND**
20 **SECURE GAS SERVICE?**

21 A. There are two dimensions to storage services: peak capability and duration.
22 SCE&G uses its storage to address both of these dimensions. Certain storage

1 services are geared toward providing large withdrawal quantities to meet spikes in
2 demand on very cold days but only for a short period of time. The storage
3 services in SCE&G's portfolio of this type include Transco LNG Storage Service
4 and both the Bushy Park and Salley LNG facilities located on SCE&G's system.
5 Accordingly, these storage services provide SCE&G with peaking capability.

6 Other storage services are geared toward meeting demand over more of the
7 winter period and not only on the coldest days. The storage services in SCE&G's
8 portfolio of this type include Transco Washington Storage Service ("WSS"),
9 Transco Eminence Storage Service ("ESS"), Transco General Storage Service
10 ("GSS") and Southern's Contract Storage Service ("CSS"). Therefore, these
11 storage services provide SCE&G with duration capability. Through the active
12 management of these assets, SCE&G is able to meet the needs of its firm
13 customers on the coldest days of the winter and over the entire winter.

14 **Q. PLEASE DESCRIBE THE CONSIDERATIONS EVALUATED BY SCE&G**
15 **IN ASSEMBLING ITS GAS SUPPLY PORTFOLIO.**

16 **A.** The Company's evaluations for assembling its gas supply portfolio include
17 reviewing the gas supply, storage, transportation, and other assets already under
18 contract. Other considerations include such things as geographical delivery
19 limitations, maximum volumes, storage ratchets, and the cost of the various
20 services. SCE&G then compares the resources against the firm demand under
21 varying weather conditions. Finally, the Company determines whether additional
22 resources are required to serve the firm demand under varying weather conditions.

1 **Q. PLEASE DESCRIBE THE USE OF EACH OF THESE VARIOUS**
2 **SERVICES WITHIN THE PORTFOLIO.**

3 A. SCE&G places different levels of reliance on its various supply sources
4 based on the time of year in question. Each management decision related to the
5 purchase of gas supply is based upon the best information available to SCE&G at
6 the time its decisions are executed. During the winter heating season, the
7 Company uses its wellhead gas as its principal supply, followed by the use of its
8 natural gas supply stored in underground storage facilities. Lastly, SCE&G
9 primarily uses its on-system LNG to meet the last increment of demand on the
10 coldest days or hours of the year.

11 As the winter progresses, this order of usage may be modified. For
12 example, if South Carolina experiences mild weather during the early part of the
13 winter and storage inventories are relatively high, then underground storage and
14 LNG withdrawals may be used instead of wellhead supply.

15
16 **II. HEDGING.**

17
18 **Q. BRIEFLY EXPLAIN THE ENVIRONMENT OF THE NATURAL GAS**
19 **MARKET IN WHICH SCE&G PARTICIPATES AND PURCHASES ITS**
20 **PHYSICAL SUPPLIES OF GAS.**

21 A. The market in which SCE&G competes today for its gas supply is a
22 national market which is dynamic and volatile, and volatility is influenced by

1 many factors. Weather fronts moving into the United States, particularly in the
2 northeast, impact the price of gas purchased for delivery in South Carolina. This
3 price impact on South Carolina delivered gas can be traced in part to the fact that
4 SCE&G purchases a portion of its gas supplies off Transco's system which serves
5 both the northeast and southeast markets. Since gas supplies available into
6 Transco's system must serve both markets, weather conditions in one market may
7 impact prices in the other market.

8 A growing national demand for natural gas also contributes to price
9 volatility in the natural gas market. Demand for gas is highly dependent upon the
10 time of year, and changes dramatically from season to season. For example, daily
11 demand for supply by electric power generators in the summer can cause a gas
12 utility to "go to market" on any given day for supply which may be equivalent to
13 five or six times the summer firm load of the local distribution company. In
14 summary, usage varies significantly from summer to winter and also from winter
15 to winter and summer to summer.

16 **Q. WHAT EFFECT DOES THE VOLATILE NATURE OF THE NATURAL**
17 **GAS MARKET HAVE UPON SCE&G?**

18 A. As a direct result of price volatility, SCE&G can encounter extreme price
19 changes in a relatively short period of time. This translates into unexpected price
20 increases for its customers that may lead to (i) social and economic costs associated
21 with higher utility bills and (ii) alternative fuel use and declining use per customers.

1 **Q. CAN THE IMPACT OF GAS PRICE VOLATILITY BE MITIGATED?**

2 A. Yes. From the outset it is important to understand that SCE&G cannot
3 eliminate or change gas price volatility. This is because gas price volatility is
4 influenced by factors beyond SCE&G's control. SCE&G can, however, attempt to
5 mitigate the impact of gas price volatility by seeking to reduce its exposure to gas
6 cost risk. While there is no "best" approach to gas cost risk management, the impact
7 of gas price volatility may be mitigated through the implementation of a financial
8 concept known as "hedging."

9 **Q. PLEASE EXPLAIN HEDGING.**

10 A. As used in the natural gas industry, hedging is defined as the practice of
11 initiating a position in the financial market in order to offset the price risk deemed to
12 be associated with a company's position in the physical market.¹ Stated differently,
13 hedging is a mechanism designed to mitigate the impact of price volatility.

14 **Q. DOES SCE&G CURRENTLY OPERATE A HEDGING PROGRAM?**

15 A. Yes. In Docket No. 2006-5-G, the Company was authorized to use Kase
16 ezHedge in conjunction with dollar cost averaging as primary tools in its hedging
17 program, and the Company faithfully adhered to this authorization in operating its
18 hedging program during the period under review.

¹ Derivative and Risk Management Glossary, Kase and Company, Inc.

1 **Q. WHAT VOLUMES OF NATURAL GAS HAS THE COMMISSION**
2 **AUTHORIZED THE COMPANY TO HEDGE?**

3 A. In Order No. 2006-679 the Commission authorized SCE&G to hedge up to
4 fifty percent (50%) of estimated gas purchases for firm customers.

5 **Q. DOES SCE&G ALWAYS HEDGE FIFTY PERCENT OF ESTIMATED GAS**
6 **PURCHASES FOR FIRM CUSTOMERS?**

7 A. No. Instances arise in which SCE&G's hedging model may indicate that the
8 level of hedging should be below 50%. Further, the Company may decide to
9 implement hedges at levels lower than 50% based upon many factors including, but
10 not limited to, market analysis, consultation with the developer of the model,
11 consultation with other market participants, and other publicly and privately
12 available information.

13 **Q. WHAT IS THE PURPOSE OF SCE&G's HEDGING PROGRAM?**

14 A. The purpose of the Company's hedging program is to help mitigate the
15 impact of extreme price fluctuations – prices that SCE&G, and ultimately its
16 customers, must pay for natural gas. The impact of price volatility is mitigated by
17 SCE&G through the purchase or sale of financial contracts made available through
18 financial markets such as the New York Mercantile Exchange ("NYMEX").

19 **Q. WHAT IS THE GOAL OF SCE&G's HEDGING PROGRAM?**

20 A. The goal of SCE&G's hedging program is to mitigate the customer's
21 exposure to the extreme price volatility present in the natural gas market in a cost-
22 effective manner. This goal, however, should not be confused with costs savings. In

1 fact, it should be noted that, while a hedging program is designed to protect against
2 exposure to the highest gas prices, it will limit the purchase of gas at the lowest gas
3 prices when gas prices are falling.

4 The objective of the Company's hedging program is to improve cost
5 predictability and to mitigate price risks by reducing SCE&G's exposure to
6 unexpected, radical cost changes that may occur over short time periods in the gas
7 spot market. In summary, the goal of SCE&G's hedging program is to mitigate the
8 impact of price volatility through the purchase of gas financial instruments.

9 **Q. HOW DOES A HEDGING PROGRAM FUNCTION?**

10 **A.** The hedging program functions much like insurance, i.e., a premium is
11 charged in exchange for protection against a particular event. SCE&G must
12 purchase physical supplies of natural gas to serve its customers; the hedging program
13 provides a measure of protection to these customers against the potential costs of the
14 continued, steady, and often unexpected and dramatic increase in the monthly cost of
15 gas. In addition to the direct benefit of mitigating price volatility, the hedging
16 program provides the Company with an additional means of mitigating risk by
17 providing an additional opportunity to diversify its natural gas purchasing portfolio.
18 The availability of different purchasing tools provides the Company with varying
19 options, which helps mitigate occurrences of volatility in the natural gas market.

20 Moreover, the hedging program provides a measure of protection from the
21 potential or risk of more dramatic increases as occurred in previous years following
22 hurricanes Katrina and Rita. While the South Carolina community was fortunate

1 that such disasters did not happen again during the review period, the hedging
2 program nevertheless provided customers with a measure of protection against these
3 risks and the additions to the cost of gas was a premium paid to guard against such
4 scenarios.

5 **Q. HOW HAS SCE&G'S HEDGING PROGRAM PERFORMED DURING THIS**
6 **REVIEW PERIOD?**

7 A. During the review period, the hedging program added approximately \$19
8 million to the cost of gas; however, closed positions for March through May of 2008
9 yielded a reduction to the cost of gas of approximately \$4 million. Furthermore, as
10 of April 30, 2008, the mark to market on open positions from June 2008 through
11 November 2009 is approximately \$26 million, indicating the possibility of further
12 credits to the cost of gas in the near future; however, these credits are based on
13 current market conditions and will more than likely change as the market changes.
14 These results and projections reflect the volatility of natural gas prices and
15 demonstrate the benefits customers receive from the operation of a hedging program
16 designed to mitigate this price volatility.

17 As SCE&G stated in its testimony in Docket No. 2006-257-G, the benefits of
18 a hedging program are not measured by whether there are additions to or subtractions
19 from the cost of gas. The goal is to mitigate the volatility of natural gas market
20 prices over the long run subject to the costs of operating the program. The additions
21 to the cost of gas for this review period reflect that gas prices were trending
22 downward overall during a period of unseasonably warm weather coupled with high

1 storage inventories and abundant supply of well-head gas. Thus, the hedging
2 program protected against the expected volatility to the up-side which did not
3 materialize, adding to the cost of gas.

4 It should also be noted, though, that the equilibrium between gas supply and
5 demand is currently precariously balanced. Anything that disturbs this balance, such
6 as hurricanes in the gulf, colder than normal weather in the winter, malfunctioning
7 equipment which affects supply, or other such events will have dramatic and sudden
8 upward impact on prices. This volatility to the upside is what SCE&G seeks to
9 mitigate through its hedging program.

10
11 **III. COMPANY'S REQUESTS.**

12
13 **Q. IN REGARD TO THE COMPANY'S PURCHASING PRACTICES, WHAT**
14 **ARE YOU REQUESTING OF THE COMMISSION IN THIS**
15 **PROCEEDING?**

16 A. During the period under review, SCE&G contracted for sufficient supplies of
17 natural gas and provided reliable service to its customers. SCE&G also adequately
18 maintained gas, storage, and transportation assets for its system during the period
19 under review at levels that were prudent and reasonably met the reliability and
20 service needs of the system. It is my opinion that SCE&G's acquisition and
21 management of these assets during the period under review has been prudent and
22 reasonable. Therefore, I respectfully request the Commission find that SCE&G's

1 cost for gas purchases and asset management were reasonable and prudent for the
2 period under review.

3 **Q. IN REGARDS TO HEDGING, WHAT ARE YOU REQUESTING OF THE**
4 **COMMISSION IN THIS PROCEEDING?**

5 With regard to hedging, I respectfully request that the Commission find that
6 the Company prudently operated the hedging program consistent with Order No.
7 2006-679 and recovered its cost through the cost of gas recovery mechanism
8 approved by the Commission in Order No. 2006-679. No changes are proposed for
9 the hedging program at this time, and the Company is continuing to operate the
10 hedging program for the current period beginning March 1, 2008 under the terms
11 approved by the Commission in Order No. 2006-679.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes.

South Carolina Electric & Gas Company
Existing Firm Transportation Contracts

Exhibit No. _____ (RJ-1)

		Maximum Firm Transportation D/Day	Expiration Date
Southern	FSNG349-1 FT	31,005	October 31, 2010
	FSNG349-2 FT	22,684	October 31, 2010
	FSNG349-4 FTNN	80,472	October 31, 2010
	FSNG349-5 FT	26,982	October 31, 2010
		<u>161,143</u>	
Transco	Z1 - Z5	3,209	December 30, 2008
	Z2 - Z5	4,720	December 30, 2008
	Z3 - Z5	3,587	December 30, 2008
	Z3 - Z5	7,360	December 30, 2008
	Station 65 (Sunbelt)	39,606	October 31, 2017
	Station 85 (Sunbelt)	6,170	October 31, 2017
		<u>64,652</u>	
Carolina Gas	Firm Transportation	296,929	October 31, 2009

Note: The Transco and Southern systems interconnect with the Carolina Gas system at a number of metering stations. Supply transported using the firm capacity contracted for the Southern and Transco systems are, in most instances, delivered to SCE&G's 96 delivery points by Carolina Gas. Thus, firm transportation capacity on the Transco and Southern systems cannot be aggregated with the firm transportation capacity on Carolina Gas to reflect accurately the firm transportation capacity available to deliver gas to SCE&G's customers.

INTERSTATE STORAGE AND LNG STORAGE

Exhibit No. ____ (RJ-2)

<u>I. Interstate Storage</u>					
<u>Pipeline</u>	<u>Type</u>	<u>Maximum Storage Quantity</u>	<u>Maximum Daily Withdrawal Quantity</u>	<u>Contract Expiration Date</u>	
Southern	CSS	4,908,848	99,121	August 31, 2010	
Transco	ESS	18,886	1,877	October 31, 2013	
Transco	ESS	154,049	15,468	May 10, 2015	
Transco	GSS	26,365	503	March 31, 2013	
Transco	WSS	447,938	5,270	March 31, 2009	
Transco	LNG	3,585	717	October 31, 2016	
Total Transco		650,823	23,835		
Total Interstate		5,559,671	122,956		
<u>II. SCE&G On-System LNG (in mcf)</u>					
SCE&G	LNGS	1,880,000	105,000		

South Carolina Electric & Gas Company
Available Capacity to Serve Firm Sales Service Demand

	Reserve Capacity (Dt)
CGTC Firm Interstate Capacity	296,929
SCE&G Shared CGTC Interstate Capacity	27,000
Segmented CGTC Interstate Capacity	40,000
Total Capacity to Deliver Gas to SCE&G via CGTC	<u>363,929</u>
SCE&G's Peak Design Day Demand (Firm Sales Service to Customers)	374,504
Less: Direct Connect Firm Sales Service Customers	<u>25,209</u>
Net SCE&G Firm Sales Service Customers behind CGTC	<u>349,295</u>
Reserve dts	<u><u>14,634</u></u>
Reserve %	4.19%